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SUBJECT: DIFFICULTIES IN MOROCCO'S MICROCREDIT SECTOR
PRESENT SILVER LINING

¶1. (SBU) Summary: The Central Bank of Morocco and the National Federation of Microcredit Associations (FNAM) moved decisively the week of 8 December to address difficulties in Morocco's microcredit industry, recommending that a national credit bureau be established. The Central Bank reported that in 2008 the number of loan beneficiaries decreased by four percent and that the default rate on microcredit loans increased by three percent. Financial experts in the field told Econoff that these difficulties stem from a lack of structural coordination and harmonization amongst the 13 local microcredit institutions (MCIs). Once established in early 2009, the Central Bank's credit bureau will be able to track the credit history of each applicant seeking a loan within the group of 13 and consequently eliminate the multiple simultaneous loans given to individuals. This will likely reduce the number of microcredit beneficiaries by half a million. In the long run, this change is a positive development, forcing MCIs to rethink and restructure their lending operations and thereby developing a fundamentally sound basis essential for a constructive relationship with the Millennium Challenge Corporation (MCC). (Note: The MCC plans to launch its USD 46 million project to increase financial services for Moroccan micro-enterprises in the upcoming months. End Note.) End Summary.

A Flourishing Industry

¶2. (SBU) The microcredit sector, a central part of Morocco's poverty reduction strategy, has grown exponentially in the last decade. In 2008, there were an estimated 1.3 million clients, with a loan portfolio of USD 695 million. (Note: Currently 64 percent of the loan recipients are women. End Note.) According to Executive Director of Planet Finance Maghreb, Mohamed Maarouf, in the last two years the number of microcredit beneficiaries grew by 144 percent, the total value of loans distributed increased by 260 percent, and the number of employees in the sector increased by 160 percent. At a micro-enterprise award ceremony attended by the Consul General in Casablanca, FNAM announced its plan to increase the number of microcredit loan recipients to three million in **¶2009**.

Perhaps Not

¶3. (SBU) Despite efforts to expand the sector, the Central Bank of Morocco and financial experts in the field note a current decline in microcredit lending and predict that this trend will continue. According to the Central Bank, in 2008 the number of loan beneficiaries decreased by four percent and the default rate on microcredit loans increased by three percent. Both Mustapha Bidouj, President of Banque Populaire

Foundation for Microcredit (BPFMC), and Maarouf of Planet Finance Maghreb, told Econoff that these difficulties stem from a lack of structural coordination and harmonization amongst the 13 local MCIs. Currently, the lending system permits an individual to simultaneously borrow money from six different MCIs, without the microcredit lenders' knowledge of the other loans, said Maarouf. "Before the clients realize it they are way in over their heads, leading to an increased default rate," Bidouj told Econoff.

¶4. (SBU) The lack of structural organization also leads to intense competition amongst the different microcredit lenders for potential clients. The President of BPFMC told Econoff that it is not unheard of to have five microcredit lenders in the same one-mile radius offering identical products and vying for the same clients. Recognizing that micro-lending is a non-profit activity, FNAM President Sijilmassi asserted that "associations must develop within a professional framework governed by internal regulations."

¶5. (SBU) Another challenge is the confusion amongst loan recipients about whether these microcredit loans are social subsidies. Maarouf of Planet Finance told Econoff of a misguided local political figure who urged his constituents not to pay back their loans, alleging that they were in fact gifts from the King. &This confusion must be addressed and this means we need to communicate with borrowers,⁸ Sijilmassi said.

The Silver Lining

¶6. (SBU) Although the microcredit sector in Morocco currently faces challenges, efforts to strengthen and improve the sector offer a silver lining. In early December at the invitation of the Central Bank of Morocco, the executive board of FNAM and the Central Bank moved decisively to create a national credit bureau. Once established in early 2009, this new entity will be able to electronically track the credit history of each applicant seeking a loan within the group of 13 microcredit lenders. Maarouf predicts that the credit bureau will likely reduce the number of microcredit recipients from 1.3 million to 800,000 because the number of repeat beneficiaries will be eliminated. As a result, MCI,s will be forced to rethink and restructure their lending operations and thereby develop a solid industry that can work effectively with the MCC. (Note: The MCC plans to launch its USD 46 million project to increase financial services for Moroccan micro-enterprises in the upcoming months. End Note.)

Another positive development is that rural Morocco will likely become a new target for MCI,s in attempt to augment their client base. Currently, 85% of microcredit loans are issued in urban areas.

¶7. (SBU) Comment: For now, the reforms in the sector reflect the support the Central Bank has extended to the microcredit industry. In the long run this is positive development for the sector,s credibility, which suffered a minor setback in ¶2008. The new developments in the sector have already forced MCI,s to rethink and restructure their operations and thereby develop a fundamentally sound basis essential for a constructive and effective cooperation with MCC. End Comment.

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